

Aging Maine Population Affects Economy

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If you want to know what distinguishes Maine's economy from other states', look in the mirror. Chances are you're over age 40. That alone isn't unique; it's that so many other readers are too.

Maine has the nation's highest median age and the lowest percentage of residents under age 18. Researchers have theorized that population aging may slow the nation's economic growth. If they're right, then Maine will be one of the first places to feel it.

Dr. Donald Kohn of the Federal Reserve Board recently spoke on this issue before the U.S. Senate's Special Committee on Aging. He explained that an aging population means fewer young people starting families and fewer young Americans entering the workforce.

"Because total [economic] output is equal to output per worker times the number of workers," Dr. Kohn said, "a slowdown in the rate of labor force growth will, all else equal, tend to slow the growth of output..."

This raises the uncomfortable possibility that part of Maine's economic lag is not due to commonly cited factors such as taxes, healthcare, or workforce qualifications, but to the very fact of who we are. We may be missing the elephant in the room. If we immerse ourselves in debates over short-term gains and losses, we'll miss the fact that our lack of young people jeopardizes long-term prosperity.

First, as Dr. Kohn mentioned, without increases in productivity, fewer workers will mean slower economic growth.

Second, businesses are drawn to places with growing customer bases and ample workers. The Census Bureau projects that Maine's population will grow 6% by 2030, while states like Nevada, Arizona, and Florida will grow by well over 50%. Where would you locate a new business?

Third, people age 25-34 years are the most likely to pursue new entrepreneurial endeavors, according to research by Babson College and the London School of Business. Today there are about 160,000 Mainers in that age group. By 2030, there will be roughly 135,000, a loss of 25,000 potential entrepreneurs. As Maine strives to compete in an innovation-based economy, the pool of most likely entrepreneurs will shrink.

Fourth, as baby boomers retire, a smaller workforce will need to support a growing elderly population. Today there are about 4 working-age Maine residents for each person over age 65. By 2030 there will be just 2. Demand for medical care and social services will increase as the number of taxpayers in their peak earning years falls.

Some people attribute our lack of young people to “brain drain,” asserting that a better business climate would entice youngsters back. This misses the fact that there simply aren’t that many young Mainers, period. Never mind where they live.

But there are ways out of this predicament. We can recruit young families and individuals to Maine, recognizing that many won’t fit the traditional “Maine” mold. Forty-five percent of U.S. children under age 5 are from a racial or ethnic minority.

We can encourage people to stay in the workforce longer and support entrepreneurship at later ages. This will likely happen to some extent as baby boomers redefine retirement.

Finally, we can tweak the “all else equal” part of Dr. Kohn’s statement. Increases in productivity would allow each worker to produce more, thereby sustaining economic growth.

Of course, the best strategy is to pursue all three options simultaneously by realigning public investments. Today, that means reducing school administrative costs and redirecting funds toward activities with longer-term gains: higher education, research and development, and support for entrepreneurs. Through the fog of current policy debates, we need to look in the mirror and see the elephant behind us.

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